

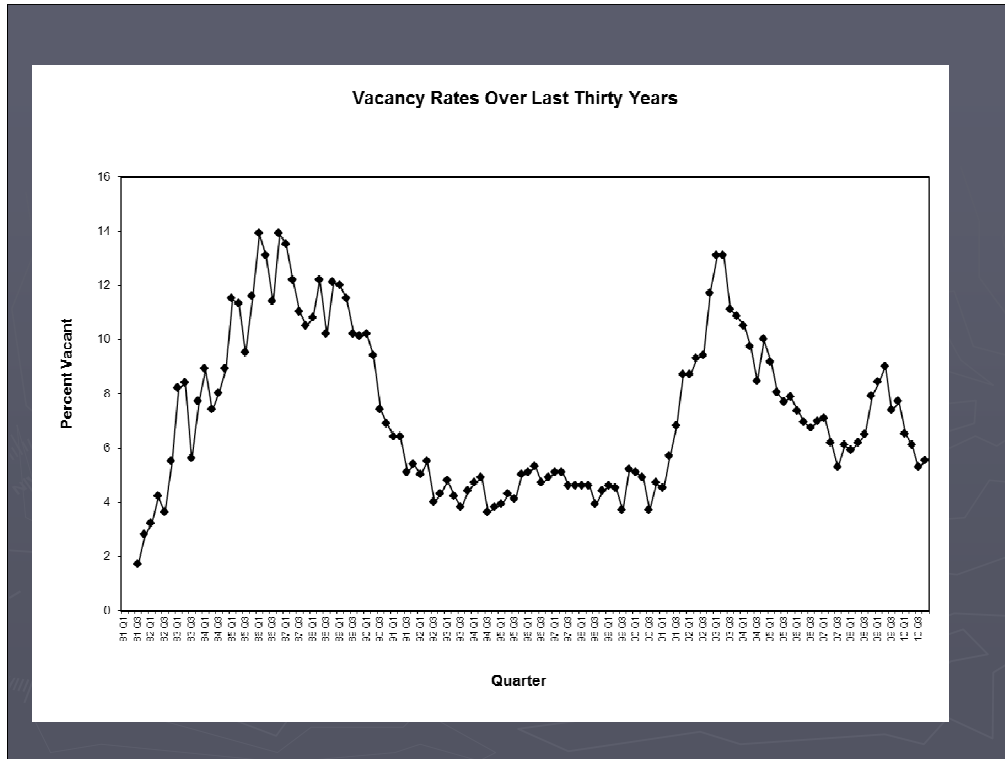
What is Behind the Current Apartment Market?

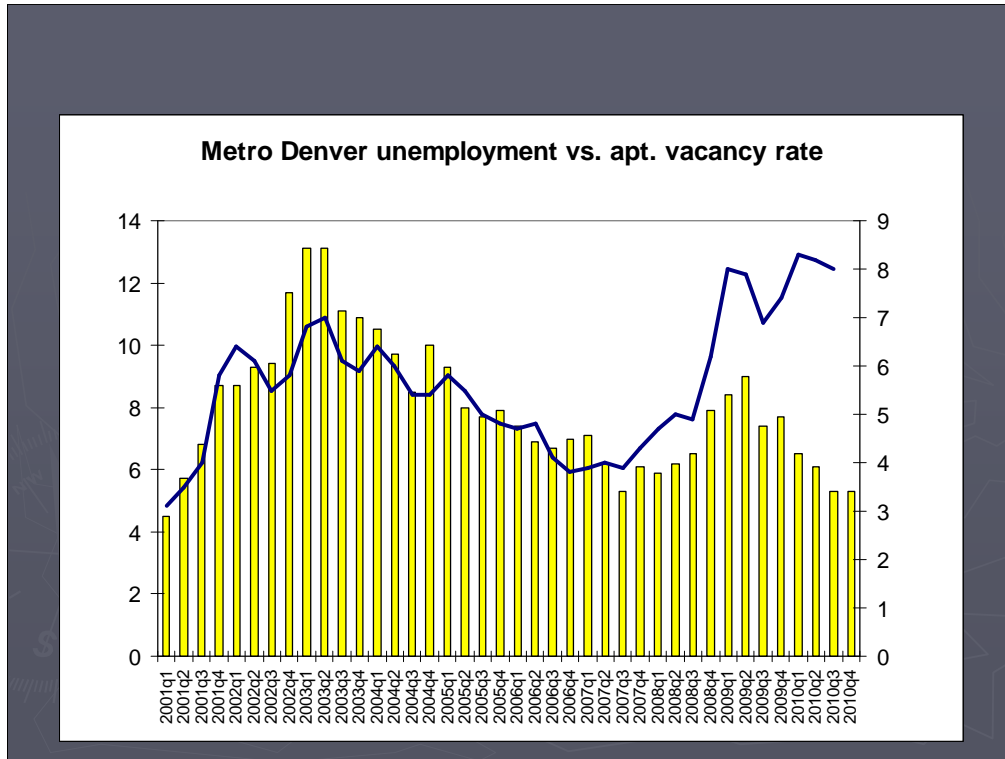
Demand and Supply Dynamics
Apartment Association of Metro Denver
January 26, 2011

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and
Ryan McMaken

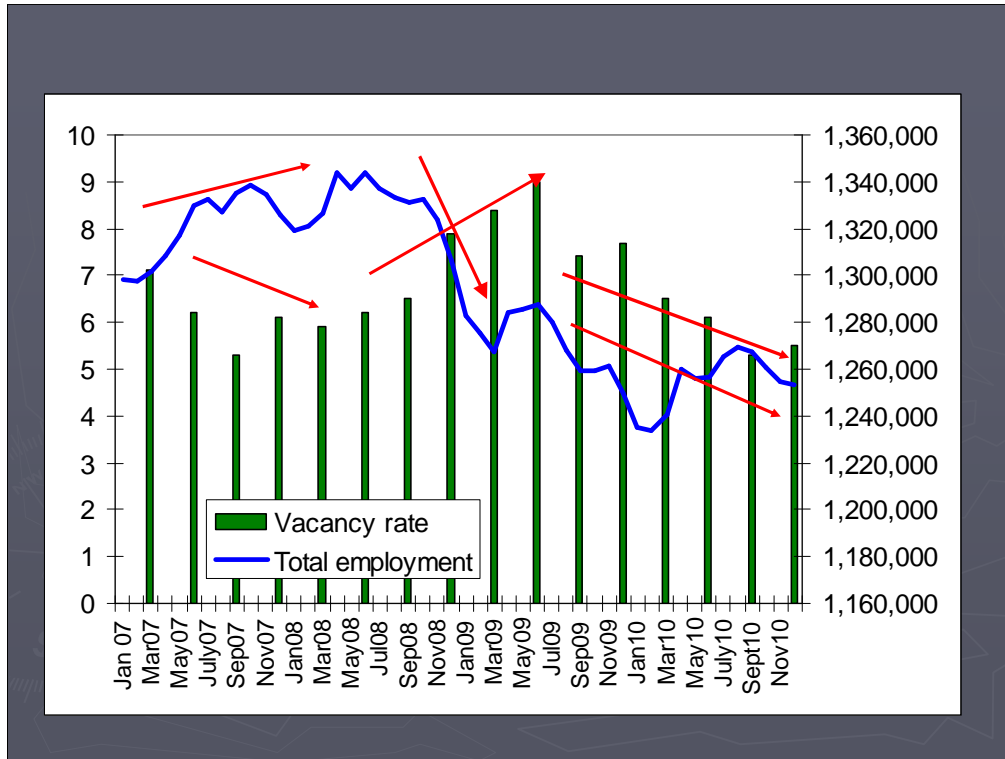
For more information:

- ▶ Current metro Denver vacancy info is available through the Apartment Association: <http://www.aamdhq.org/>
- ▶ Historical information on metro Denver vacancies is available through the Division of Housing: <http://dola.colorado.gov/cdh/index.html>
- ▶ Current and historical vacancy reports for the balance of state and more are at: <http://dola.colorado.gov/cdh/index.html>
- ▶ The Division of Housing regularly posts updates and analysis of economic data related to housing at the Division's Housing Blog: <http://divisionofhousing.blogspot.com/>



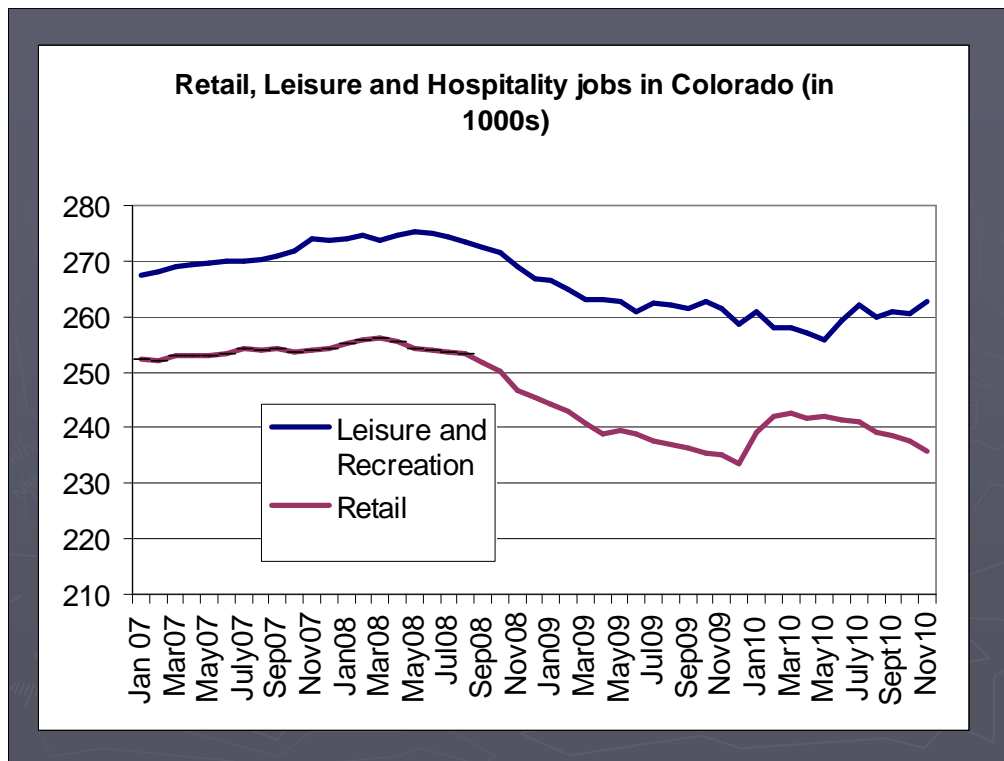


Historically, there is a nice correlation between unemployment rates and vacancy rates. This correlation breaks down after mid-2009. Demand continues to grow in spite of little job growth.



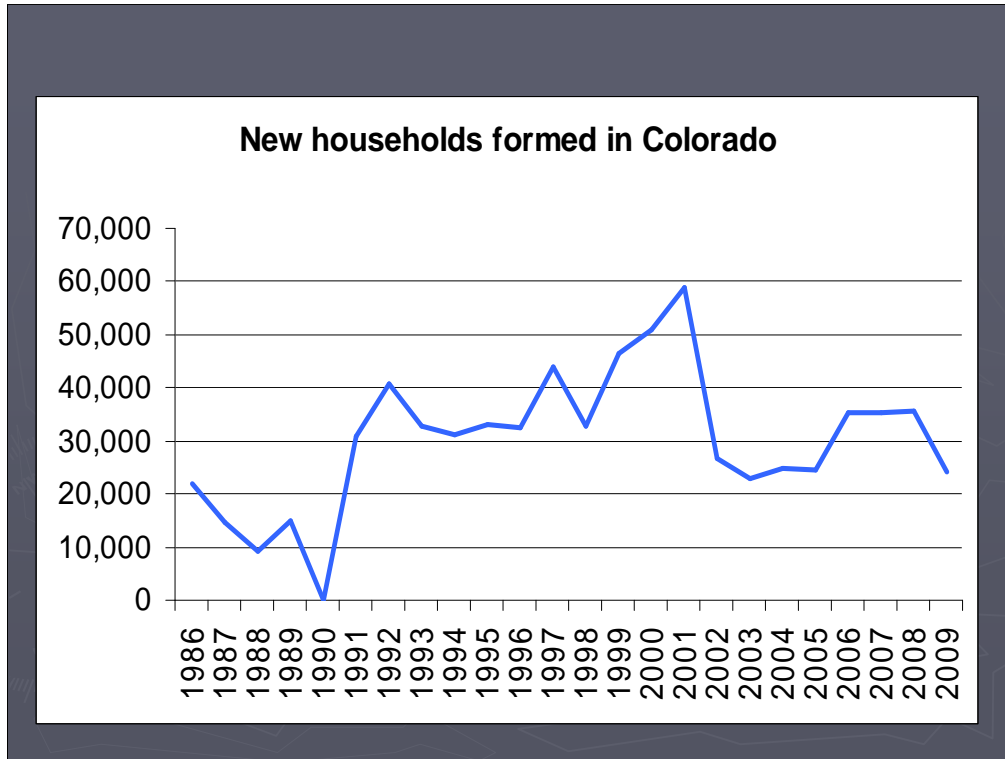
Here we see the same correlation applies to total employment also. The arrows historically go in opposite directions, but after mid-2009 BOTH total employment and the vacancy rate go down.

Historically, declining vacancy is fueled by job gains, but not now.



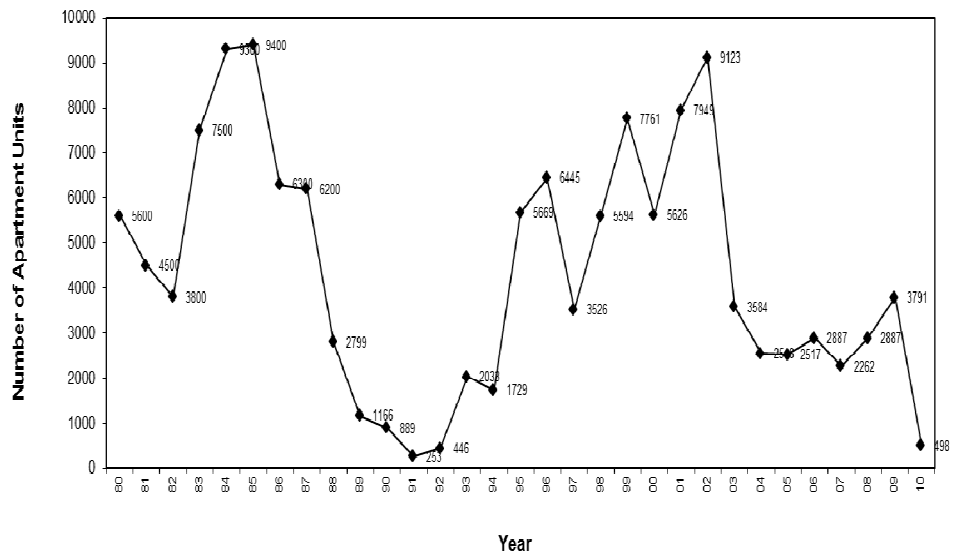
As an aside, we note that the cohort of renters aged 18-26 are not doing any better on the job front than others. Among the young, unemployment is around 25%.

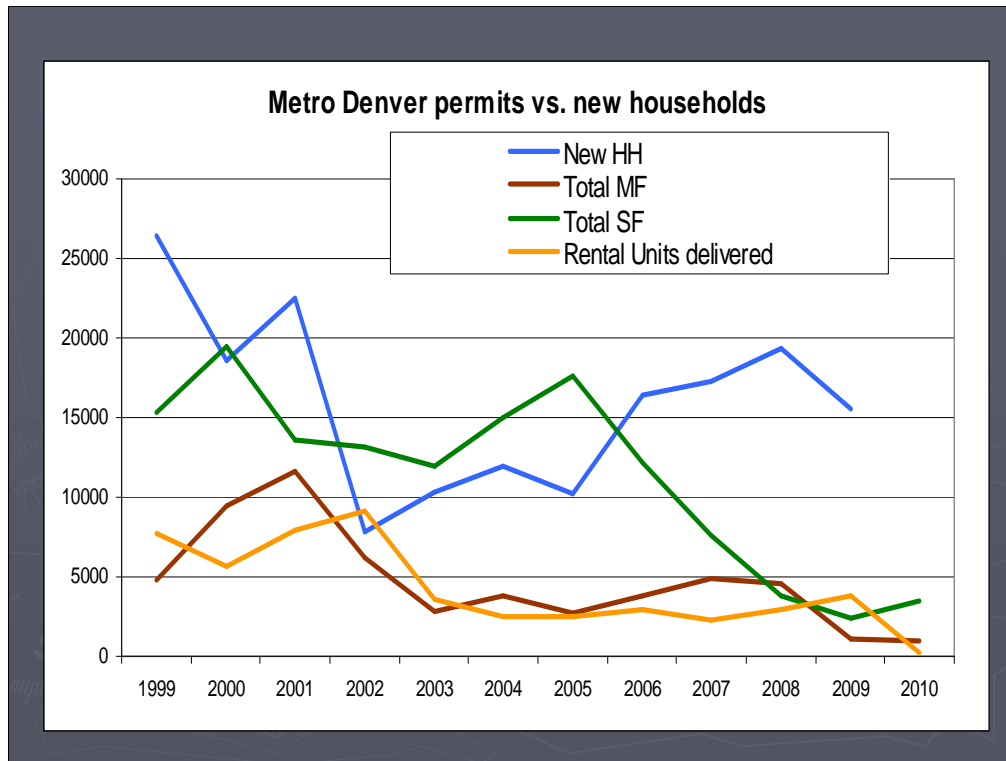
The service sector jobs, which are common among renters, have also been in decline.



A reason that vacancy continues to fall is because of strong household formation.

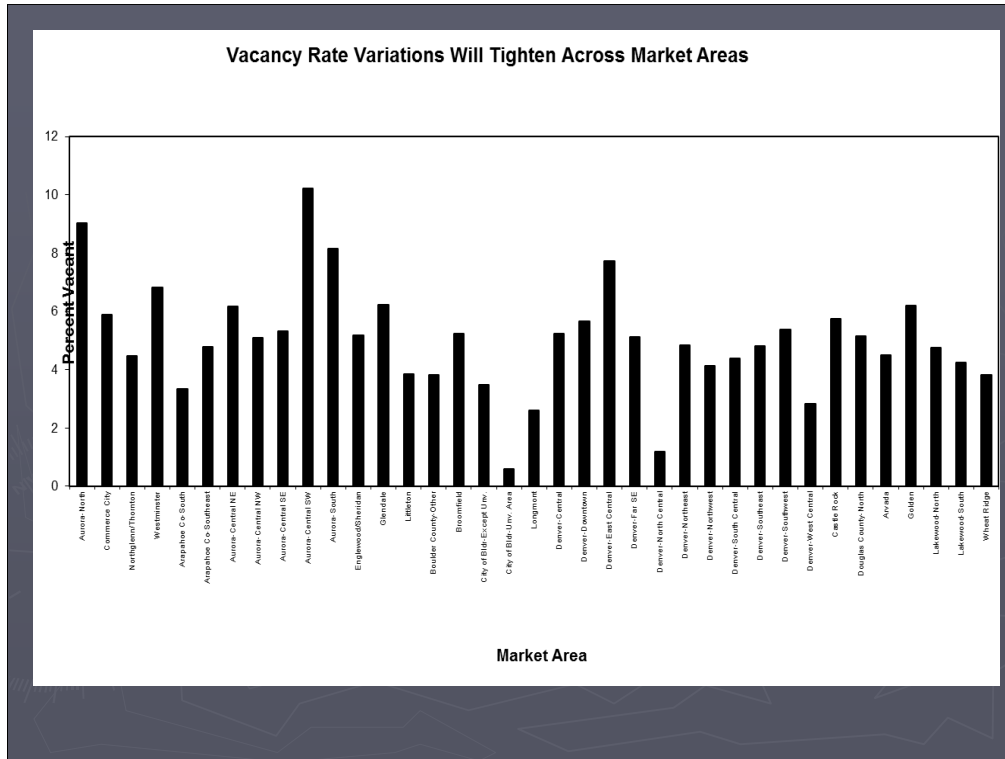
New Apartment Units Added in Metro Denver Area Over Last Thirty Years





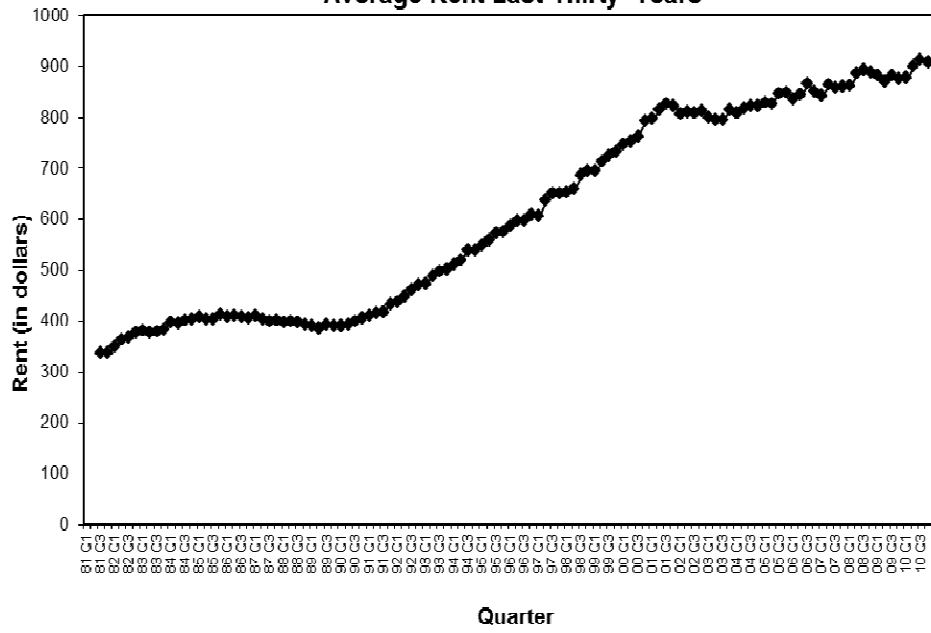
Here we compare new permits issued with household formation.

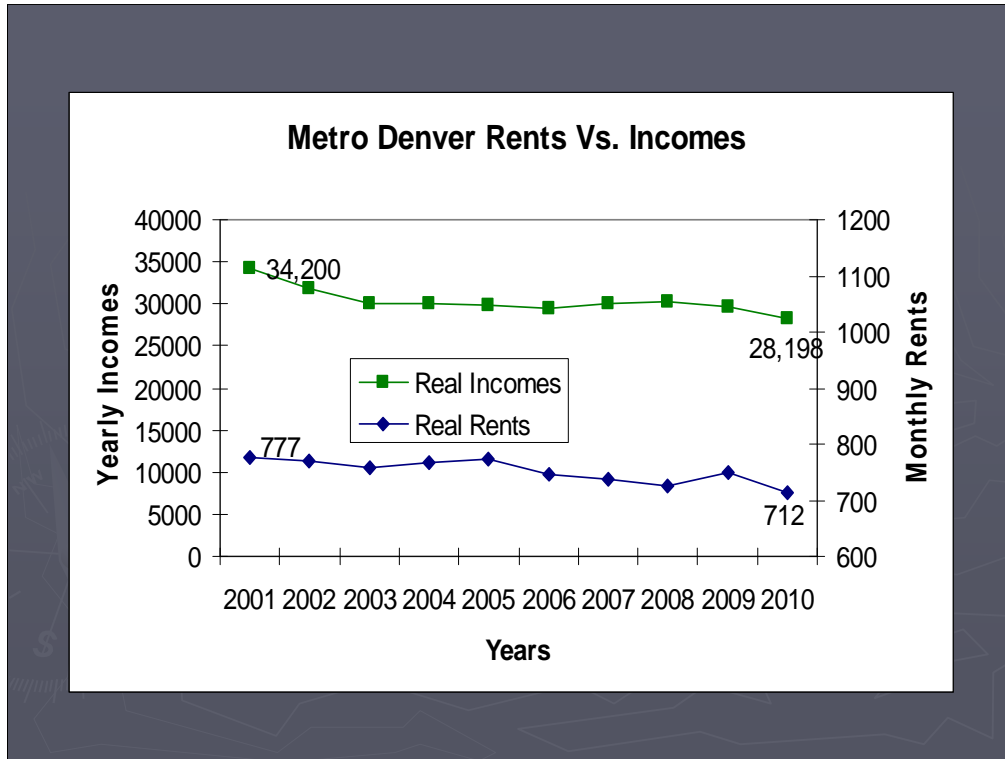
According to some industry professionals, 5 new households drives a need for 1 new multifamily unit. This would mean a minimum of 3000 units should have been built in 2009 (and so on.) The region has not built enough multifamily units to keep up in recent years.



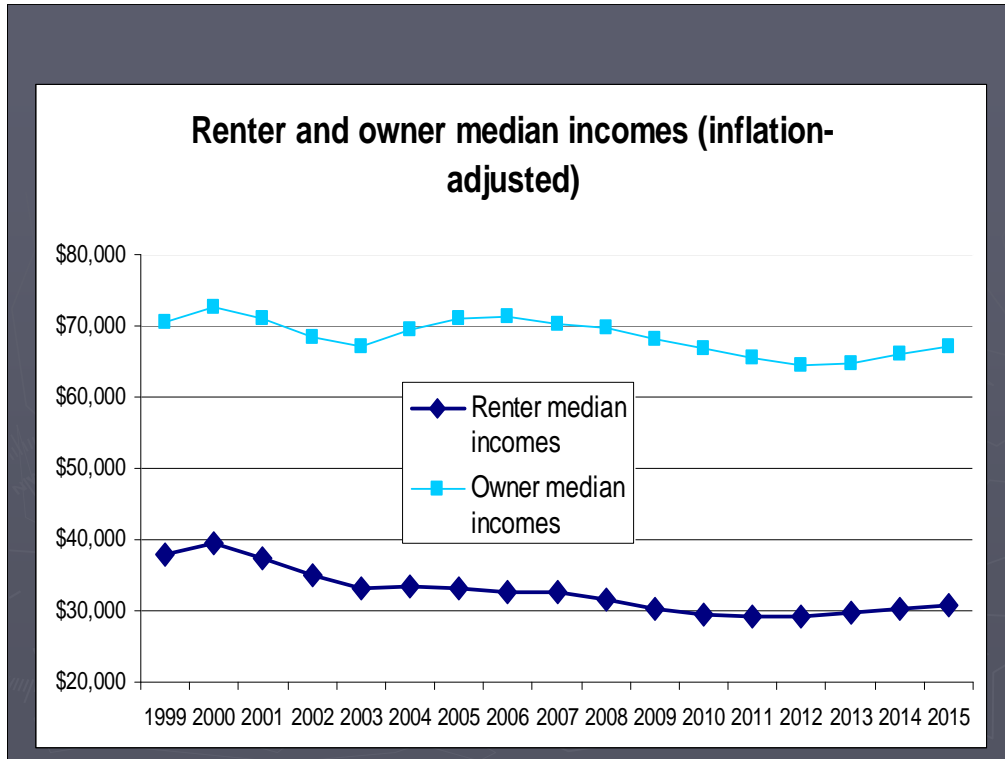
Variations in the vacancy rate will tend to fade as vacancies are filled as tenants look for empty units in even less desirable areas.

Average Rent Last Thirty Years

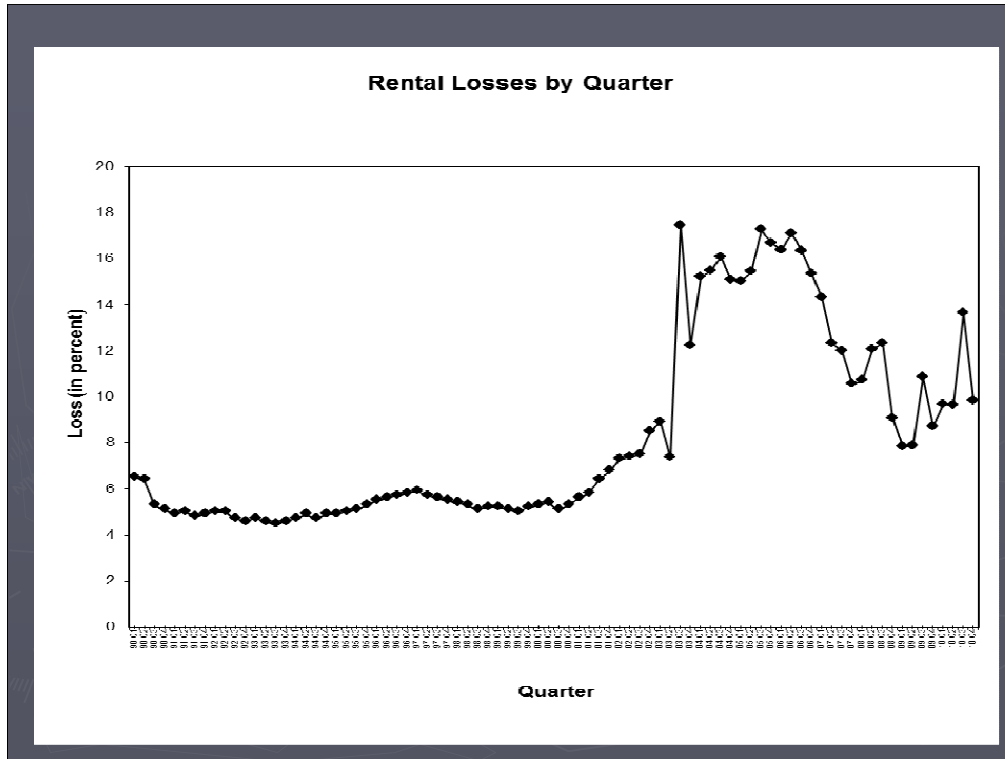




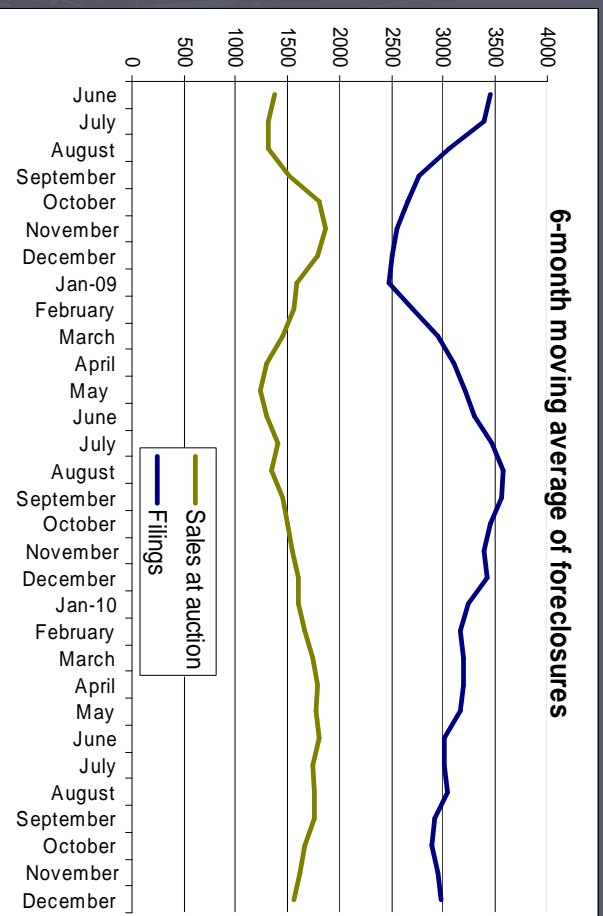
Average rents have not kept up with inflation but neither have incomes.



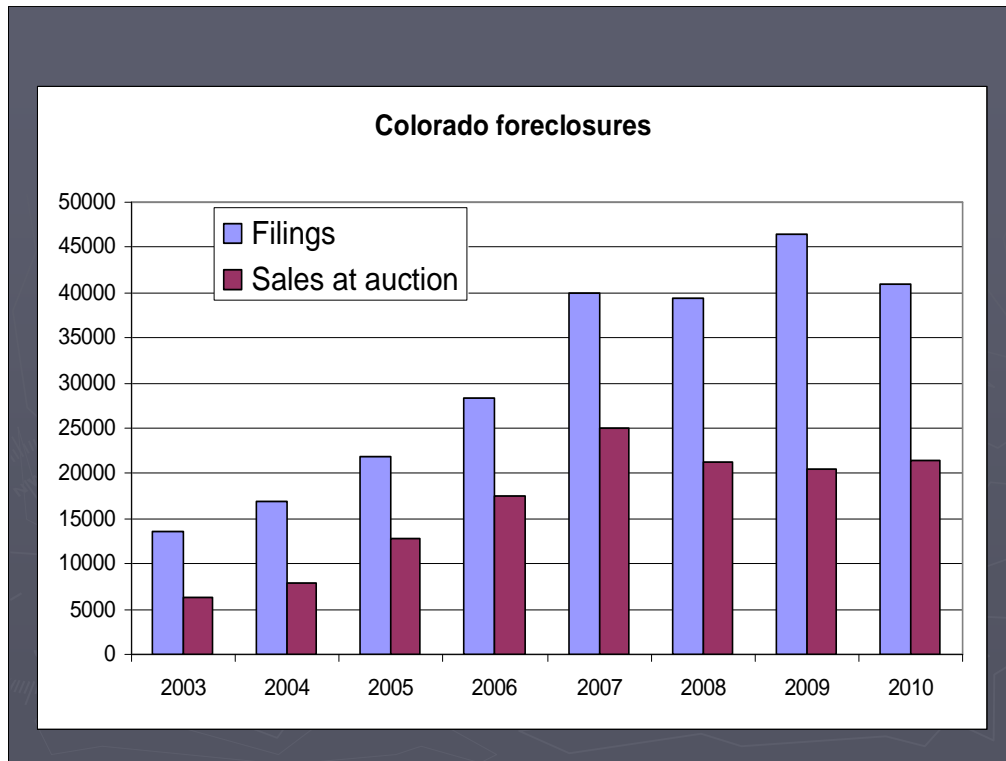
Incomes are projected to fall.



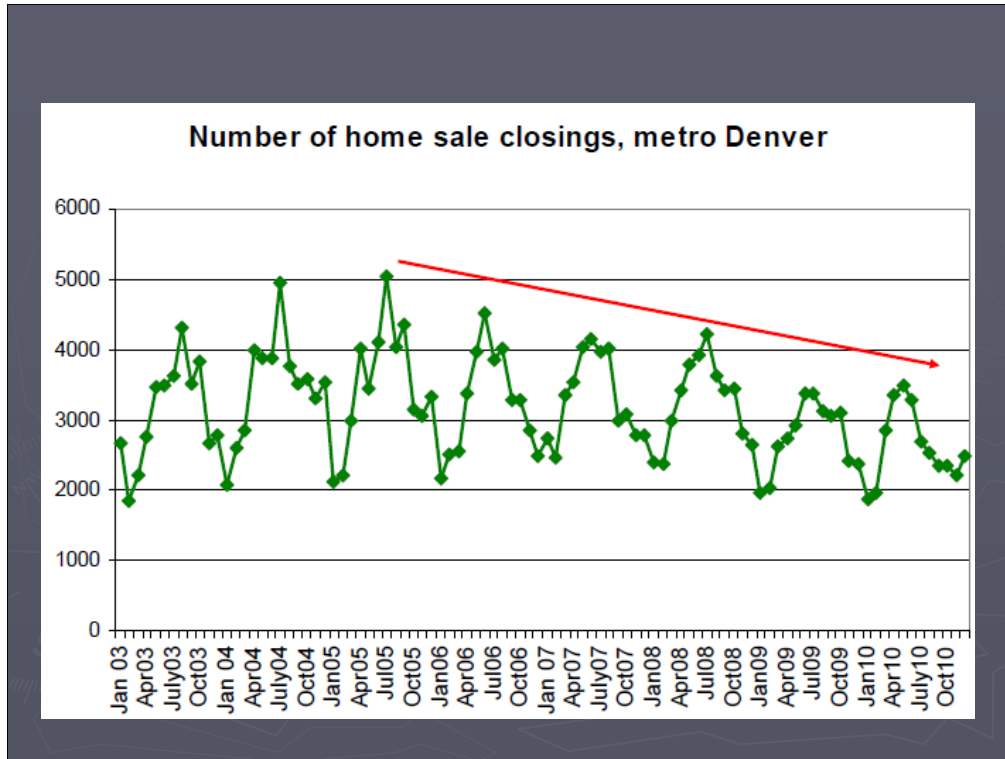
Rental losses have come down from peaks, but remain high by historical standards.



Foreclosures are also a reason that vacancies continue to fall in spite of weak jobs gains.

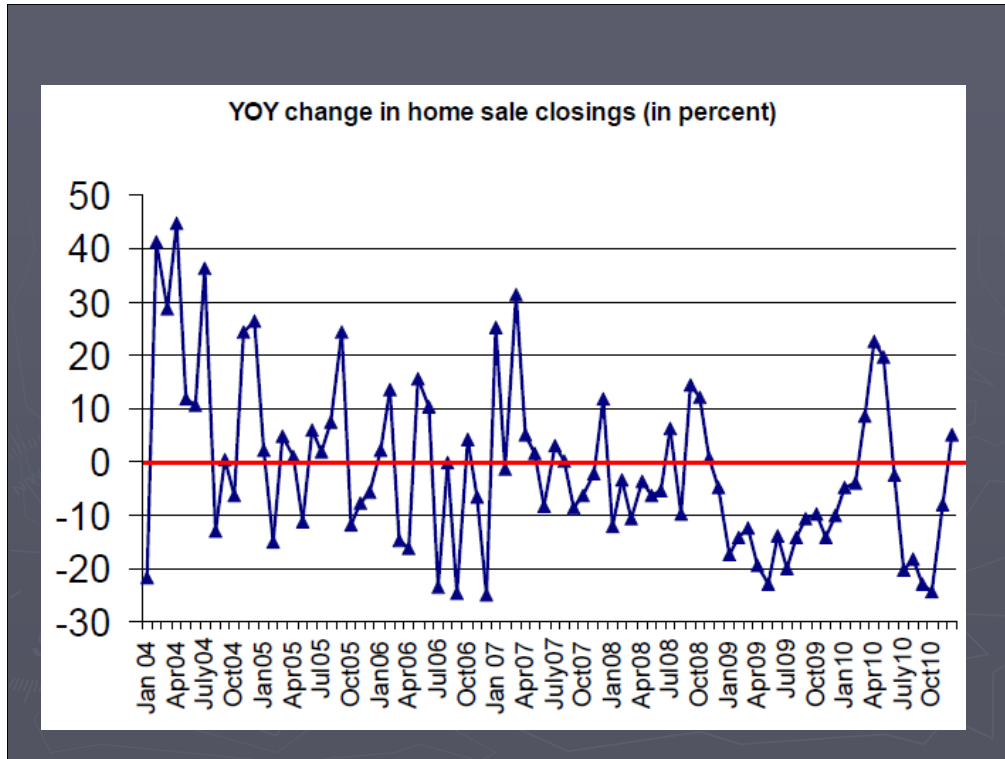


While the last slide shows foreclosure totals falling in recent years, foreclosure totals are still at historical highs.

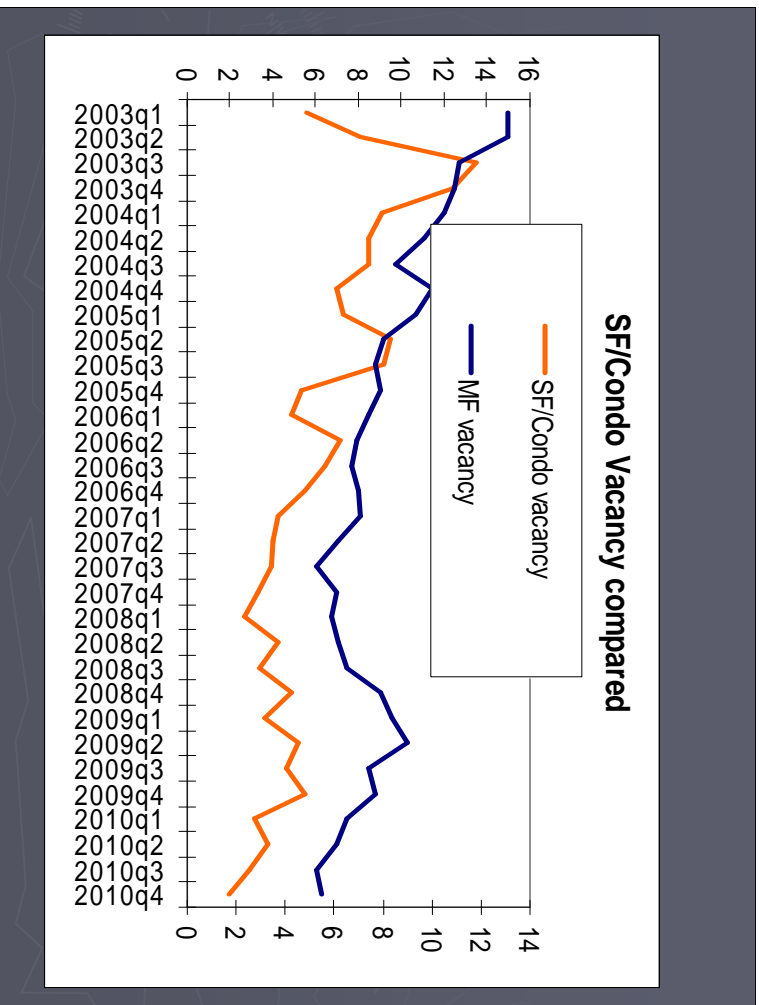


A large benefit to apartment owners is the fact that the number of home purchases has declined.

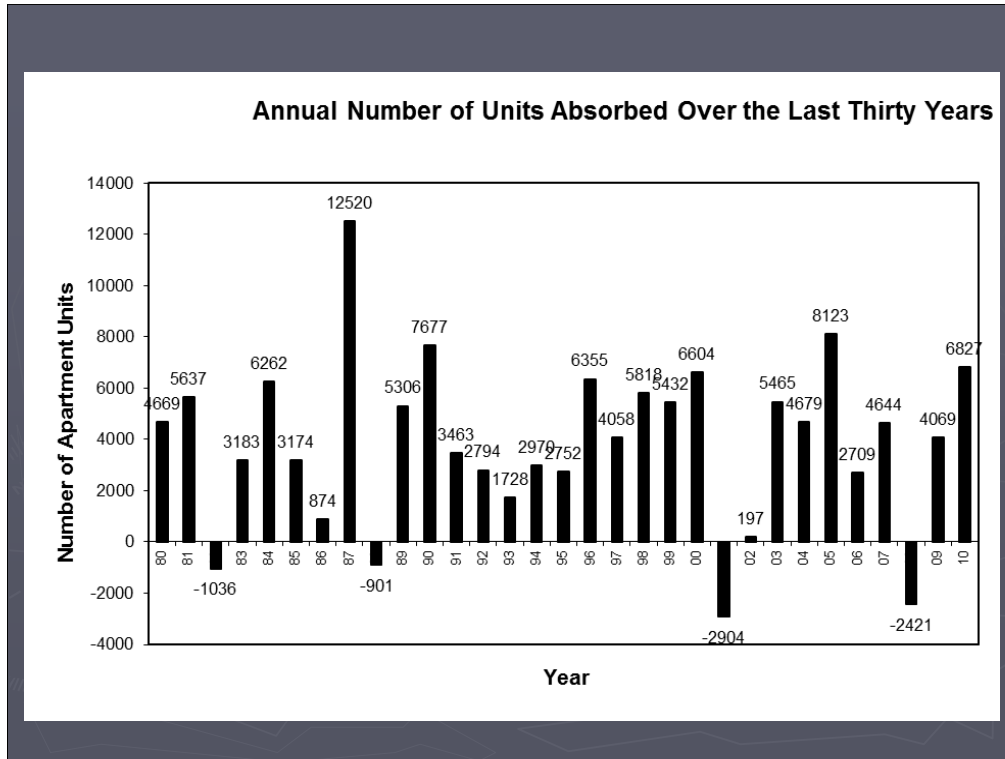
Note the downward drift and note the collapse in transactions that occurred after the end of the tax credit in mid-2010.



This shows that even compared to 2009, the second half of 2010 for home sale transactions was negative.



The number of single-family rentals tends to be lower than multifamily and is at the lowest level yet recorded.



Absorption is at the 4th highest level yet recorded.